



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

<b>Bill #</b>	SB0400	<b>Title:</b>	Earned income tax credit
<b>Primary Sponsor:</b>	Kaufmann, Christine	<b>Status:</b>	As Amended in Senate Committee

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Revenue:</b>				
General Fund	(\$5,875,000)	(\$5,975,000)	(\$6,076,000)	(\$6,179,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$5,875,000)</u>	<u>(\$5,975,000)</u>	<u>(\$6,076,000)</u>	<u>(\$6,179,000)</u>

**Description of fiscal impact:** This bill would allow residents who take the federal earned income credit to take an income tax credit equal to 5% of their federal credit.

### FISCAL ANALYSIS

#### Assumptions:

1. This bill would allow resident taxpayers who take the federal earned income credit against their federal income tax to take a credit equal to 5% of their federal credit against their state income tax, beginning with tax year 2007. If the credit exceeds the taxpayer's liability or if the taxpayer has no state tax liability, the taxpayer is entitled to a refund. To be claimed, the taxpayer must file a Montana income tax return.
2. The most recent IRS data on the earned income credit is for 2004. That year, 74,621 returns with a Montana address claimed \$123,019,000 in earned income credits. Annual growth in the amount of credits in 2003 and 2004 was 1.7% per year. Income limits for eligibility were raised between 2004 and 2007. Average annual growth is assumed to be 2% between 2004 and 2007, to account for more taxpayers being eligible, and then to return to 1.7%.
3. Federal credits claimed by taxpayers with Montana addresses will be \$130,549,000 for 2007 (\$123,019,000 x 102%<sup>3</sup>). Federal credits claimed by taxpayers with Montana addresses will be \$132,768,000 for 2008, \$135,025,000 for 2009 and \$137,320,000 for 2010.
4. Some taxpayers who file their federal income tax return from a Montana address are not full year residents of the state and would not be eligible for this state credit. Some taxpayers who are eligible would not

claim the credit. Therefore, the amount of state credits claimed will be assumed to be 90% of federal credits multiplied by the 5% credit percentage.

5. Credits for a tax year would be claimed on tax returns filed the following spring. Credits for a tax year will reduce revenue in the next higher numbered fiscal year.
6. Credits for tax year 2007 would be \$5,875,000 (90% x 5% x \$130,549,000), and general fund revenue for FY 2008 would be reduced by the same amount. General fund revenue would be reduced by \$5,975,000 in FY 2009, by \$6,076,000 in FY 2010, and by \$6,179,000 in FY 2011.
7. Changes to income tax forms to accommodate this credit would be made as part of the normal annual update process. The Department of Revenue would have no additional costs of administering the income tax because of this credit.

**Revenues:**

General Fund (01)	<u>(\$5,875,000)</u>	<u>(\$5,975,000)</u>	<u>(\$6,076,000)</u>	<u>(\$6,179,000)</u>
<b>TOTAL Revenues</b>	<u><u>(\$5,875,000)</u></u>	<u><u>(\$5,975,000)</u></u>	<u><u>(\$6,076,000)</u></u>	<u><u>(\$6,179,000)</u></u>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$5,875,000)	(\$5,975,000)	(\$6,076,000)	(\$6,179,000)
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**Long-Range Impacts:**

1. The revenue loss from this bill would continue to grow over time after FY 2011.

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*Sponsor's Initials*


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*Date*


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*Budget Director's Initials*


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*Date*